RICHARD RUSSELL'S **DOW THEORY LETTERS, INC.**

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**January 27, 1982** **LETTER 827**

Jan. 15, DJIA 847.60; PTI 1388; A-D Ratio –25.01
Jan. 22, DJIA 845.03; PTI 1376; A-D Ratio –25.42

**THE PICTURE:** I seldom begin a Letter this way, but following are some of my current observations – and they all bother me.

(1) Heating oil futures (a proxy for oil) are down sharply and still sliding. If oil is this weak in the face of a record and prolonged freeze, it's weak! This deflationary trend in oil is confirmed by the weakness in gold, silver.

(2)My Primary Trend Index (PTI) has formed an enormous top; it appears to be on the edge of a technical cliff (see later section).

(3) The D-J Industrial Average broke 845. This put the Dow BELOW a 40-year trendline, a trendline that intersects the 1942 and 1974 lows. The long-term implications of this action are, to say the least, unpleasant.

(4) My work shows that the money markets are moving towards a negative yield spread again (i.e., short term rates ABOVE long term rates). If the yield spread does go negative, this would indicate great pressure in the short term money market.

(5) The Fed has (since August) not been buying Treasury debt. If this policy continues, the Fed will, in effect, be telling the Treasury that it will have to handle its own deficits. If that occurs, new highs in bond yields are guaranteed.

(6) My reaction to Reagan's last press conference is that the President acted very tentative, edgy – he seemed almost confused. The sparkle, the lightness was gone. When asked about Mr. Volcker of the Fed, the President was testy, and he totally avoided the question. But Volcker's chairmanship at the Fed is not up until August, 1983. It could be a long year-and-a-half.

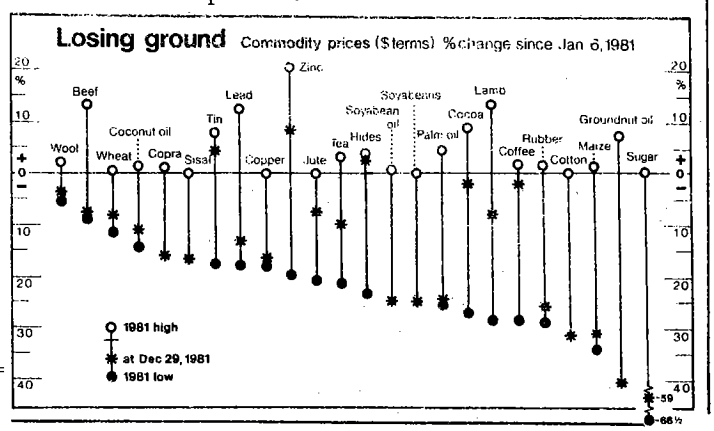
(7) Volcker and many Republicans (including Stockman) are not supply-siders. Volcker (it seems to me) is saying, "OK boys, if you can't cut the budget deficits, then *you* finance them. We're tired of buying Treasury debt and producing inflation."

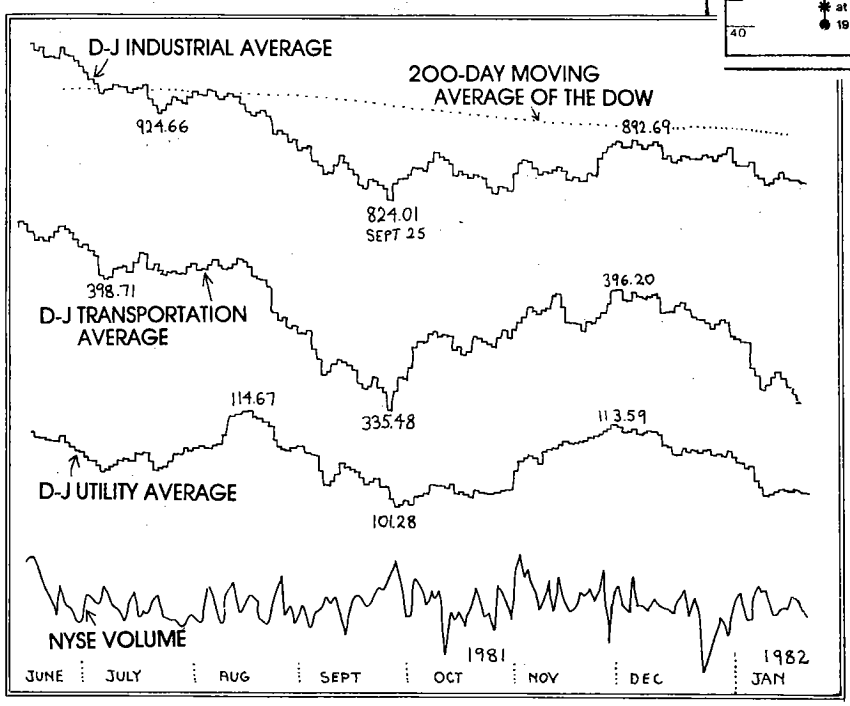
(8) The Administration's projected budget deficit for 1983 is $75 billion, the biggest budget deficit in history. President Reagan (probably correctly) views the Soviet military build-up as a menace to the West, and Reagan feels that a US military build-up is mandatory. My only objections: (1) other (non-military) spending areas including entitlements should be cut to the bone – or else we face fiscal disaster. (2) My intuitive guess is that one-third or more of the military budget is pure waste and duplication. (3) My guess is that half of ALL Government spending is froth and waste.

**FRONT PAGE COMMENT:** Last year saw the biggest pointage drop in the CRB Commodity Futures Index in 25 years. The chart below shows you some of the commodity highlights. Gold has dropped below 380 and silver has fallen under $8. The bond market is still a disaster area, with many bonds near record lows. The D-J Industrial Average lost 9.2% last year, the S&P 500 lost 9.7%. Housing prices are soft, diamonds have dropped up to 40% in price. The world price of oil is sloppy and heading lower. The auto companies are negotiating with the union for lower wages, and government employment at all levels is declining.

The only appreciation today is appearing in debts, deficits and interest rates. The squeeze I've been warning about for the last two years is now occurring. Gold's latest drop tells me that the deflationary trend will shortly be intensifying.

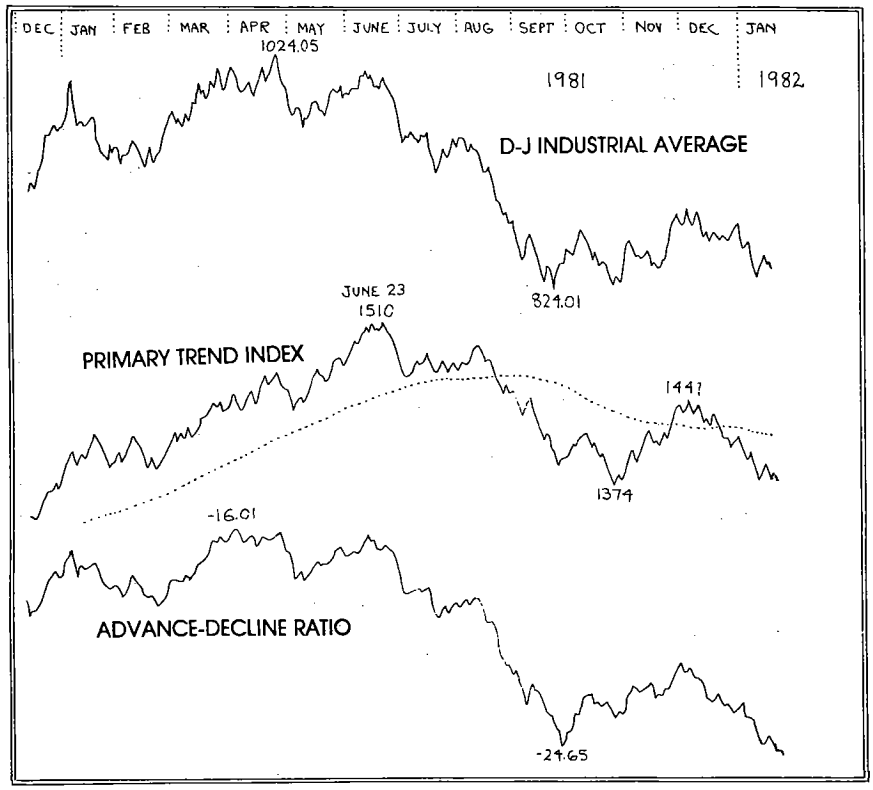
There's no question about it, the various markets have been deflating. And the markets LEAD the general economy. By spring I expect deflation to be the number one topic of conversation in the US. I also expect it (along with unemployment) to be the number one problem.

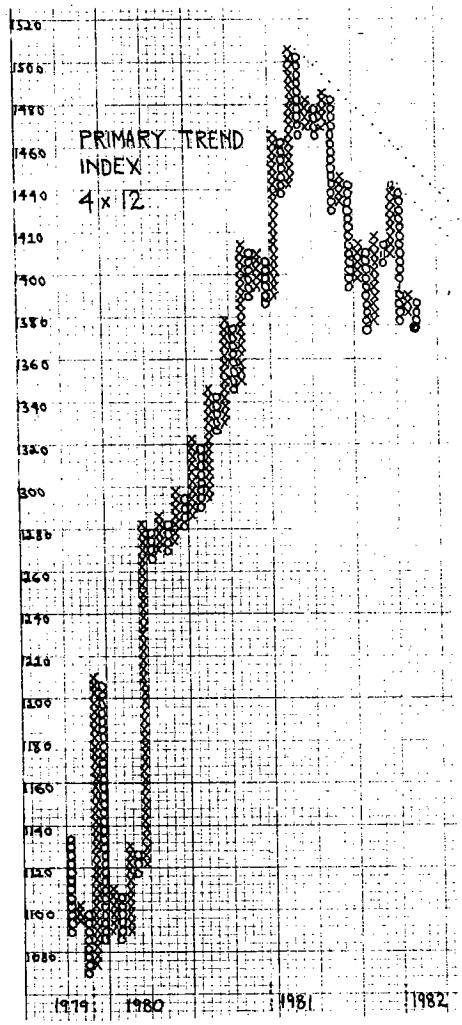



**THE MARKETS:** On January 13 the advance-decline ratio (this is a proxy for all NYSE stocks) broke below its September 25 bear market low. The move tells us that the bear market has now wiped out most of the gains in stocks going back to roughly April of 1981.

So far, the Averages have not confirmed the weakness in the A-D. A confirmation would entail the D-J Industrial Average breaking below its September low of 824.01 *confirmed* with a Transporta-




tion Average break below its own September low of 335.48. Whether this will occur now or at some later date obviously no one knows. Nor, in the great scheme of things, does it matter much. I say this because we are in a primary bear market, and I believe the September lows will be broken by both Averages – in due time.

I get the feeling (call it intuition if you wish) that this bear market is not fated to end anytime soon. In fact, I would consider it fortuitous if the bear market hit bottom as early as the September-October period of 1982. Between now and then I see difficult times for traders and scalpers. The moves of the bear will not be easy to follow from here on.

One reason I say this is that we are now in the second phase of the bear market, and the second phase is characterized by deception, false moves, costly break-outs and sudden collapses.

Turning to the daily chart of the PTI, you will note that the PTI has been moving down in a saw-toothed manner. The PTI is now just points away from its important October 26 low of 1374. What happens if 1374 is penetrated? For an answer to this, I refer you to the point & figure chart of the PTI which I also include with this Letter.

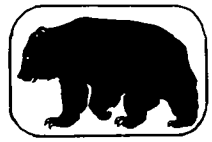
This is a large-scale P & F chart with each box representing 4 points on the PTI and only rallies or declines of 12 points or more being shown. In this way, I can compress a lot of action on a small chart, and you will note that this chart shows all the PTI action going back to 1979.

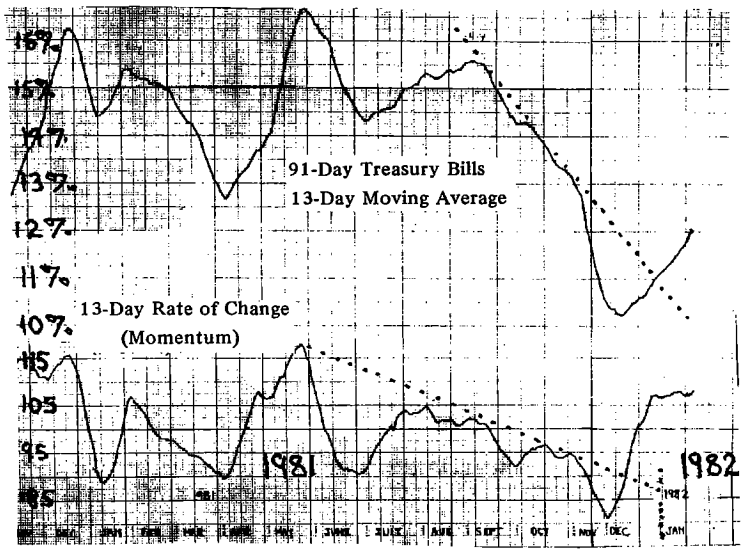
You don't have to be an expert to see that the PTI pattern as depicted on this chart – is ominous. A break below 1374 would give the pattern the appearance of a car that has just been pushed off a cliff. Therefore, if the PTI breaks down from here I would say that the PTI could sink at least another 100-150 points, and very likely more. Obviously, such a drop would take the whole stock market with it.

I might add that this kind of formation, the kind of top that we see on this chart, presents heavy odds in favor of a breakdown. I don't know for certain what's coming up, and I am well aware that "the market can do anything." But it seems to me that the PTI is giving us fair warning of what lies ahead. The PTI is saying, "stormy weather," and I would like my subscribers to act accordingly.

Turning back to the daily chart, note that the advance-decline ratio (which is a proxy for all NYSE stocks) is at new lows – below the September 25 low. Since so many stocks are now breaking down, it is no surprise to see the daily new low list surging above the 100 mark. The bear is again lunging at the market, and the A-D ratio is confirming this. Further confirmation of the primary bear market will come if (1) the PTI breaks below 1374, and (2) if the D-J Industrial Average slips below 824.01 confirmed with a Transport break below 335.48.

**INVESTMENT POSITION:** Our position is to be fully invested in 91-day Treasury bills. I've been saying that T-bills are "profitable but boring," but with the current gyrations in the money market I'm not even sure that T-bills are boring any more. Last week the yield on 91-day T-bills rose to an "exciting" 12.8%. Thus, the feast of the cash-holders goes on. Another year of this and I predict that cash will be heading the "chic list" in the glossy magazines.






**INTEREST RATES:** In Letter 824 (Dec. 16) I introduced my new system for tracking short-term interest rates. This consisted of a 13-day moving average of the 91-day T-bill yields, and a 13-day rate-of-change of the moving average. In Letter 824 I noted that this study was saying that interest rates on the bills were *heading up again* – from their extreme low of 9.9% recorded on December 4.

And sure enough, that is just what has occurred. Yields on the 91-day bills hit a high of 12.8% on January 22. As you can see on the chart, the 13-day rate-of-change reversed its 7-month declining trendline in mid-December. This was confirmed when the 13-day moving average of the yields reversed its down trendline at the end of December. The rate-of-change has now risen to 108.

A second observation. Normally, long-term money market yields are higher than short-term yields – because there is more risk in holding long-term paper. But occasionally, the yield spreads go "negative," and this means that there is such pressure for money in the short-term market that near-term yields push above longer term yields. This was the bearish situation throughout 1981. But in November the yield spread went positive again.

I keep charts of the various yield spreads. Last week I got an indication of the yield spread moving towards negative again, as my differential of the 91-day yields and the one-year yields broke down. At the end of December one-year T-bills were yielding over 1% more than 91-day T-bills. Last week this differential had dropped to only .30 points. If the yield spread goes negative watch out – it will be an indication of extreme pressure in the money markets. It looks to me as if that's what is going to happen.

**BEAR MARKETS:** For the benefit of newer subscribers, I want to try to explain how bear markets work. Primary bear markets usually contain three psychological phases. These phases are not necessarily tied to the price movement. They are *sentiment* or mood phases, and I will describe them. The first phase is the "awakening," the shock which follows the froth and foam of the preceding bull market's final speculative top. During this shock period, the market "mysteriously" tumbles, and this early decline erases the bubbles and excitement of the preceding bull market's final thrust.

Referring to the current situation, this bear market began from the Dow high of 1024.05 recorded April 27, 1981. I would say that the first phase of this bear market began on April 27 and continued to about July. The actual Dow Theory bear market signal was given on July 2, and you may remember that I identified the July 2 bear signal in Letter 813 (the Letter of July 15). I noted at the time that I had never seen so little attention paid to a Dow Theory bear signal. Skepticism was so widespread at the time that most other Dow Theorists either ignored the bear signal or denied its existence. This skepticism, I wrote, actually heightened the authority of the bear signal of July 2. So much for the first phase of the bear market.

The second phase of a bear market sees stocks go down in reflection of obviously deteriorating business conditions. It is my opinion that the second phase of this bear market started somewhere around July, and that we are still in the second phase of the bear market. Business conditions are still weakening, corporate profits are heading down, and the stock market is in a bear trend.

The second phase is traditionally the longest phase of a primary bear market, although this is not always the case. I have seen bear markets in which the third or final phase is the longest; and I would not be at all surprised to see the third phase of this bear market extend and thus become the longest phase.

The third phase of a bear market is the distress phase. It is here that we see stocks sold for no other reason than that they can be converted to money. In the third phase cash is king, and the stock market becomes "a dirty word." Whereas sentiment in the second phase of a bear market was, shall we say, unhappy but still hopeful, sentiment in the third phase becomes gloomy, and white knuckles are the order of the day. Robert Rhea wrote that the third phase represents the "abandonment of hopes," and it is my opinion that this phase lies ahead.

"But how far ahead?" you ask. My answer is that I cannot tell. So far, the Averages are still well above their September, 1981 lows, and I want to see how the market acts (and how sentiment develops) if and when those September lows are broken. My feeling is that there is still a good deal of optimism around, and this is the kind of mood I associate with the earlier part of the second phase – rather than the third phase. So at this point I really cannot predict when the second phase of this bear market will end. As I've said so many times before, Wall Street runs on its own schedule – not yours or mine. The bear will follow its own path, at its own pace and in its own good time.

It is at the end of the third phase decline that the next bull market is born. Out of the dispair and hand-wringing of the final, third phase, the seeds of a new bull market will germinate. It is important to remember that during the third phase the market discounts the worst – the very worst that can be seen ahead. Thus, just as a bull market (near its end) tends to overdo it on the upside, a bear market (near its end) tends to go too far on the downside. In the third phase stocks sink below known value, often far below book value, replacement value, or accounting value.

The secret of success during a bear market boils down to one word – cash. If one is to survive during a bear market and prosper during the next bull market one MUST HAVE CASH. This is the reason I have been advocating T-bills or a cash equivalent ever since last July. At this point, even though we are not in the third phase of this bear market, I think subscribers should be able to see the wisdom in that position. If the concept of cash still does not excite you, my only answer is: "Wait, before the bear is through cash will excite you."

Question: Russell, I note that despite the bear market and despite the sloppy action of common stocks, many technical analysts remain bullish. What do they base their bullish case on?

Answer: I believe the bullish technical analysts are basing their optimism on the sentiment indicators. And it is here that they can go very wrong. It is crucial to recognize and understand the difference between bearish sentiment in a bull market and bearish sentiment in a bear market. During a bull market, a build up of bearishness is a build up of sentiment AGAINST the primary trend. When too many people take a stand opposite that of the primary bull trend, it is a clear sign that they are wrong. Thus, undue bearishness during a bull market is an indication that the market is sold out and ready to head up strongly.

This is not so during a bear market. During a bear market pessimism is simply sentiment that is IN HARMONY with the prevailing primary trend. Ignorance of this concept is what hurt so many analysts during the great 1973-74 crash. The build up of pessimism during 1973-74 was in harmony with the primary trend. During this period the BEARS WERE CORRECT, and those who operated on contrary opinion ("too many bears can't be right") were doomed to losses.

The operative principle in investing is to GET IN HARMONY WITH THE PREVAILING PRIMARY TREND. When the primary trend is bearish (as now), then pessimism is the correct view. It is well to remember that all major movements end in EXHAUSTION. Thus, bull markets end when optimism is exhausted and the bull has spent his money. By the same token, bear markets end when the pessimism is exhausted, and the last bear has sold out in fear or disgust.

Here's an observation that readers may find of interest. It's been my experience that during a bull market every financial problem seems somehow to work out. Bankruptcies are put off, crises are solved, emergencies mysteriously evaporate. Not so in a bear market. During a bear market everything that can go wrong does go wrong. Projections turn out wrong, problems blow up in your face, hopes and optimistic calculations develop into national disasters.

SPECULATION – INVESTING: One of the major tasks I've had in writing these Letters is to explain to subscribers what we're trying to achieve. In order to do that I have to explain a few terms. First gambling:

*Gambling* is tossing a coin, making a wager on a stock with no concept of the odds or the possible outcome of the bet. In other words, gambling implies no knowledge of the outcome – no calculation of the odds.

*Speculation* (I should say informed speculation) implies a thorough understanding of the item and an understanding of the risks involved in trading the item. Unlike the gambler, the intelligent speculator will insist on the odds being in his favor. The speculators understanding of the item he's trading in is what tilts the odds to his favor.

The *investor* is a buyer of values, and he seeks a return. Consciously or unconsciously, every intelligent investor understands the principles of compound interest, and he understands the concept of income through time. Whereas the successful speculator utilizes patience to enter and exit the market at the right time, the investor uses time so that his investments can grow and compound. But the essence of the investor is that he is a student of values. Great values occur when (1) a company possesses talent, capabilities or assets which insure it an outstanding future, or (2) a market collapse takes stocks below known value.

In this business, it is absolutely essential that you examine your own psyche to determine your strong points and weak points. A patient man who hates gambling, hates cards, hates games, is not going to be a good speculator. He could probably become an excellent investor. An excitable, impatient, gutty individual who loves intelligent risk will be bored to death as an investor. This individual will probably (after a good deal of study and experience) make a good speculator.

The man who loves to play the horses or who dotes on Vegas or Reno is almost surely going to be a loser, and there isn't much I can do for him. The basis of gambling is the "excitement" of not knowing who is going to win. The gambler enjoys the thrill of playing craps with his own fate. Psychologists say that within the heart of every gambler lies the question (pertaining to mother) "She loves me, she loves me not." The gambler is obsessed with whether fate (mother) can or will love him.

Of course the second major element in gambling is the enormous power that the gambler gives to money. Money is life, it is mother's milk, it is love. The gambler is totally taken up with this power that he gives to money. But on a deep level the gambler is not at all convinced that he deserves the money, and this self hate, this guilt, is why he turns to gambling (if he really felt he deserved the money, he would take an honest job and make the money – and keep it).

Everyone knows the old adage, "Money is the root of all evil." Well, it isn't true. The adage should read, "The POWER THAT WE ASSIGN TO MONEY is the root of all evil." Gold, dollars, francs, yen, they hold absolutely no power on their own. It is how we FEEL about money and what we DO about money that contains the seeds of good or evil.

BUYING: Question: Russell, I note that you haven't mentioned much about stocks in quite a while. In the old days, you used to constantly talk about individual stocks. What's happened?

Answer: I generally talk about individual stocks (from the standpoint of buying them) when I think the market is near or at an attractive buy area. I haven't felt we were in a buying area in some time. Over the last year, for instance, about 85% of all no-load funds have declined, and they are down even on a total return basis (i.e., total return includes dividends). This tells you the story.

Question: I note that you talk more and more about no-load funds and less about individual stocks. Why?

Answer: When a bull market starts, most stocks (probably better than 80%) are on their way up. But investors have a habit of picking the wrong stocks or of losing patience with stocks that are just about to make their move. When you buy a well-managed fund during a bull market, you are almost sure to do as well or better than the major stock averages. Therefore, I feel that the no-load funds are a great boon to the investor. Nevertheless, when I feel we're at a great buying area, I will also list individual stocks to buy as I did in late-1974.

Question: How can we know which no-load fund to buy?

Answer: There are four reasonably priced services that are of great help in picking, and familiarizing yourself, with funds.

These are (1) *United Mutual Fund Selector*, 212 Newbury St., Boston, MA 02116. $65 annually. (2) *No Load Fund X*, 235 Montgomery St., San Francisco, CA 94104, $77 per year, (3) *Growth Fund Guide,* Growth Fund Bldg., Yreka, CA 96097, $76 per year, (4) *Telephone Switch Fund Letter*, PO Box 2538 Huntington Beach, CA 92647, $97 per letter. I suggest sending for sample copies.

These services offer a wealth of information, and one, or two can be used in conjunction with the timing information I include in Dow Theory Letters.

Question: But given the start of a new bull market, do you prefer buying individual stocks or no load funds?

Answer: For the average investor, I think no load funds will provide a more satisfactory participation in a bull market. For the astute individual, the professional, the person who puts in long hours studying the market and stocks, it is very probable that individual stock picks will serve him better than no-load funds.

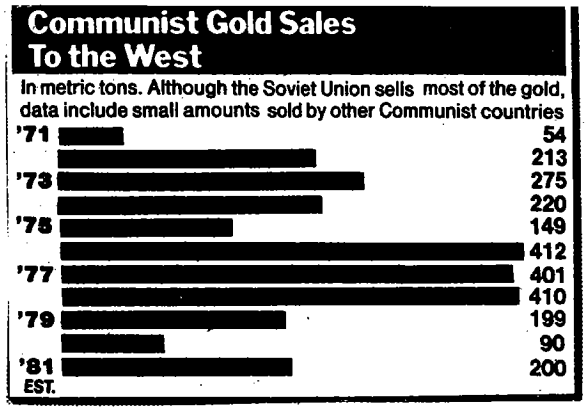
But there are two caveats. (1) If you buy say 15 stocks in a bull market, there are always going to be 3 or 4 laggards and 1 or 2 that die. This can be very discouraging to an investor. The no-load fund, on the other hand, will give you a much "smoother" and much more worry-free ride on the bull. (2) If you pick say 15 stocks you are likely to pick a few or maybe only 1 terrific mover. In 1974 I picked a number of fine performers right on the bottom, including *Metromedia* at 10, *General Cinema* at 6, and *Macy's* at 10. So there are the two sides of the question.

Question: What do you think of IRA's and where would you put your IRA money?

Answer: The IRA is a great gift – how can you not like it. I would put IRA money in a fund with switch capabilities, and this includes funds like *Rowe Price, Fidelity, Guardian (Neuberger Berman),* etc. All these funds are covered in the publications listed above. Right now, money should be placed in the money market fund end of the switch fund – not in the equity end.

**ANNOUNCEMENT:** The 1982 chart pages for both the A-D ratio and the D-J Averages are now ready. The cost is $2 for each. Although the A-D chart books are sold out (and I will not reprint them), I still have 70 albums of the D-J Averages. These are loose-leaf albums with one page (11"x17") for each year of the Averages going back to 1885. The daily charts include the Industrials, Transports, Utilities, Bonds and Volume. Outstanding events of each year are included on the charts. These are the only complete daily charts of all four Averages available anywhere. They are invaluable for students of the market or of financial history. Price for the chart book of the D-J Averages is $49 ($52 if you live in California), I pay the postage.

**NOTES & QUOTES:** I have noted that, historically, those nations which accumulate gold are the nations which are rising in power. Conversely, those nations which, for any reason, are losing gold are those nations which are declining in power. Though a great military nation, Russia has been selling her gold (gold which Russia mines via slave labor in Siberia). Even though Russia is a major gold producer, I am of the opinion that Russian gold sales are an indication of declining economic strength. If Russia were rising in economic strength, she would be a gold accumulator. This chart traces Russian gold sales since 1971.




I maintain that the West has been a huge factor in the rise of Russia to world power. The West has made loans to the Soviet bloc to the tune of $82 billion. Of this, $19 billion is in the form of direct loans to Russia. On top of this, the West has been shipping its technology and know-how to Russia, thus saving the Soviets billions of dollars in research and development. So despite a miserable Soviet economy, the Russians continue to build their military. If I were President, I would halt all sales of EVERYTHING to Russia. And I would pressure, and I mean PRESSURE, our allies to do the same.

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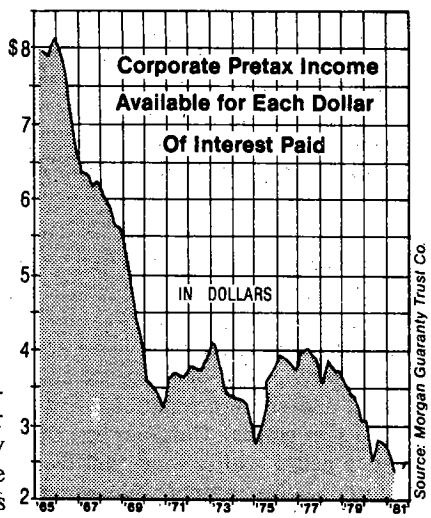
One of the things that makes this bear market so ominous is that interest payments are eating up corporate profits. That's another way of saying "illiquidity." This chart shows the deterioration in the corporate position. In 1965 corporations made over $8 in pretax income for every $1 in interest that they paid out. Currently, corporations receive less than $2.50 for each $1 of interest they pay out. And as the recession drags on, it is entirely possible that interest payments could actually rise above income. If that occurs, corporate America is going to have its back against the wall – and we're going to see bankruptcies, lots of them.

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From our "Road to Destruction Dept." Here are 9 US Presidents and the total deficits that accrued during their reign: Roosevelt 1934-45 produced $197 billion in deficits. Truman in 1946-53 produced $4.4 billion in deficits. Eisenhower during 1954-61 $15.8 in deficits. Kennedy 1962-63 $11.9 billion in deficits. Johnson 1964-69 $42 billion. Nixon 1970-74 $68.7 billion. Ford 1975-76 $124.5 billion. Carter 1977-80 $181 billion. Reagan 1981-84 projected deficits of $481 billion. I'll make a statement here – no nation on earth can continue this way and survive. The tide of deficits will turn or the US will be unrecognizable within a decade (by unrecognizable, I mean that we will have a different form of government).

* *

Washington DC, which has been virtually immune from recession, is finally feeling the squeeze. According to the New York Times, "retail sales (in Washington) have been sluggish. Home construction inthe area, the site of one of the strongest housing booms in

the East, has virtually stopped. Employment agencies are flooded with erstwhile Government employees looking for work." The fact that unemployment in Washington is now over 9% may go down as the most incredible statistic of the early 1980's.

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Just a few months ago everybody was excited because the national debt rose over the $1 trillion mark. Well, in case you didn't know it, our Government has not been resting. Here's the latest up-to-date score. We've now gone $33 billion over the $1 trillion mark. Do you know what the interest costs are on the little $33 billion we've just added on? It's $400 million a year. This is what I mean by "compounding your way to national bankruptcy" – and it's continuing.

**Government Finances**

WASHINGTON (AP) – Here are figures on government spending and debt (last six digits are omitted). The government's fiscal year runs from Oct. 1 through Sept. 30.

| | |
|---|---|
| Total public debt Jan. 14 | (1,033,679 |
| Interest on public debt Nov | 8,587 |
| Interest fiscal year thru Nov | 16,562 |
| Projected deficit fiscal 1982 | 43,089 |
| Actual deficit fiscal 1981 | 57,932 |
| Receipts fiscal year thru Nov | 89,784 |
| Receipts period last year | 78,098 |
| Outlays fiscal year thru Nov | 118,532 |
| Outlays period last year | 103,926 |
| Gold for November | 11,152 |

Sucker's Section: People tell me they have a great time gambling. I lump gambling and cigarette smoking in the same category – the category of "it's going to happen to the other guy, not to me." This clip shows what happened to the other guy in Atlantic City (and Vegas is much bigger). The other guy lost $1.1 billion in 1981. Happy 1982, all you gamblers.

**● ATLANTIC CITY'S casino-hotels say they won $1.1 billion from gamblers last year, including about $2.1 million from three Hong Kong high-rollers in one sitting just before Christmas. The nine casino-hotels won $84.9 million during December, an average of $2.7 million a day, but that was about 24 percent less than November, according to the New Jersey Casino Control Commission.**

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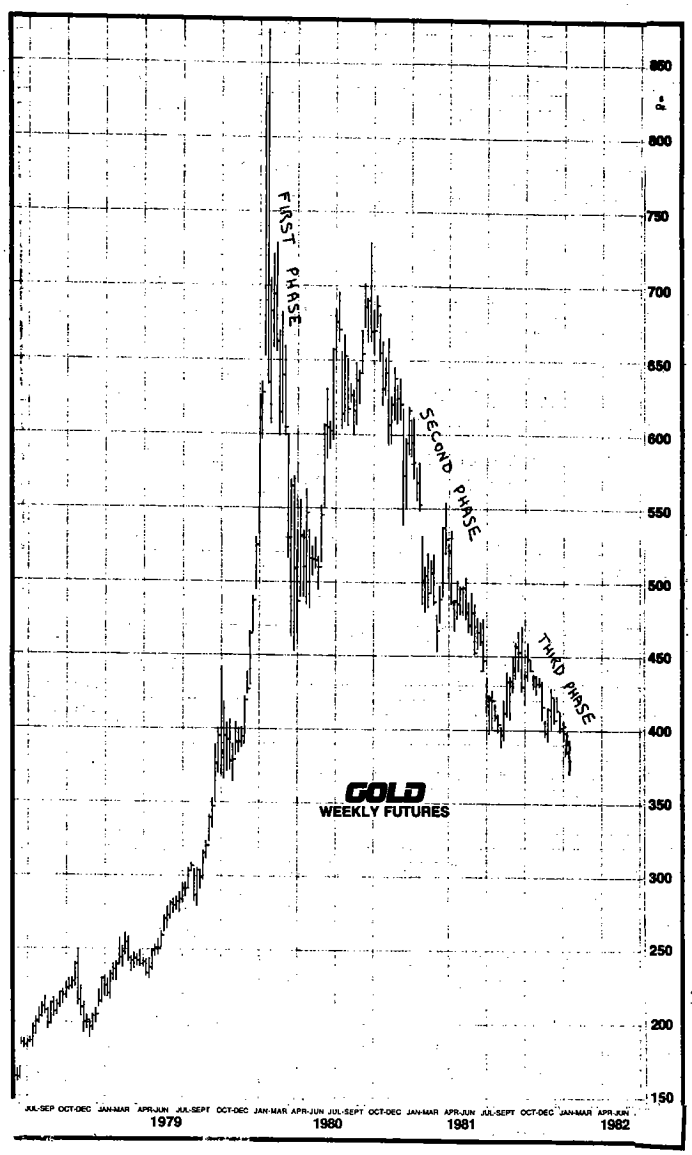
I've been feeling guilty, hiding out here in warm San Diego while most of the nation is in a deep freeze (even Florida caught it this time). But I've put in my time (35 years in NYC and the snow isn't even white in NY) so I guess I shouldn't feel too guilty . . . . Speaking of cold, I thought the AFC playoff game between Cincinnati and San Diego was a disgrace (and that isn't sour grapes). Our poor San Diego Chargers can take the cold, but 5 below with a wind chill factor of minus 60! That wasn't a sport, it was an exercise in pure survival.

**BOOKS:** "The Money Lenders" by Anthony Sampson, Viking Press. A fascinating new book which tells about the whole sorry mess that Westerners laughingly call "banking." From Baring to Rockefeller to Citibank, the tale is spun out for you. Informative, shocking, some may say sickening. But it happened, – and it's still happening. For those with strong stomachs only.

I've always had more respect for women than men (did you ever hear of a woman who started a war?). At any rate, I've been reading a remarkable book entitled "Particular Passions" by Gilbert and Moore (Potter), and it is a compilation of autobiographical stories by about 40 women, women who have shaped our times. If you aren't a women's libber, try reading this one; it will convert you (and I guarantee that you'll come out of it believing that women are AT LEAST as smart as men).

**GOLD:** This weekly chart (courtesy *Commodity Price Charts*, Cedar Falls, ID) shows gold undergoing the various phases of its major (deflationary) bear market. It is my opinion that gold is now in its third and final phase down. The number of (commodity) futures contracts for gold has just dropped to a new low, indicating that the players are either tired, disgusted or just plain broke.

Bear market bottoms can take varying periods of time to complete, and no man (or woman) alive knows how long this final third phase decline in gold will take. In my mind, I've been thinking that gold "should" hit bottom at around 350, but your guess may be better than mine. At any rate, gold is in it's final bear phase, and what I am watching for is a draggy, sluggish sideways movement (perhaps lasting many weeks or even months) telling me that the end of the decline is here. At that point – but wait, let's get there first.




**LATE NOTES:** The week ending January 22 saw the PTI close within 2 points of its October low. . . . we also saw a new low in the A-D Ratio. The 91-day T-bills jumped to over 13% yield in the after-market and bonds turned weak. In commodities, the deflationary trends continued with new contract lows in copper, lumber and heating oil. Since the Dow Theory bear signal of July 2 we haven't missed very much by being out of this market. Meanwhile, the losses have been building up in almost everything that's tradeable, from stocks to metals to grains to bonds to housing.

**NEXT MAILING: Feb. 10**